**INVESTING IN SOCIAL VENTURES (B8767)**

**Spring 2019**

Professor Bruce Usher

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**COURSE DESCRIPTION**

This half semester course provides students interested in impact investing with the opportunity to perform due diligence on early stage social ventures (nonprofit and for-profit ventures with a social or environmental mission). Students will be placed in teams to evaluate social entrepreneurs who have applied for funding from the Tamer Social Venture Fund, completing detailed due diligence on the applicant team, the social venture and the sector. The course will conclude with each team submitting a written due diligence report and a recommendation for funding to the Tamer Social Venture Fund Investment Board.

This course is designed to teach students how to perform due diligence on early stage social ventures, including for-profit and nonprofit ventures. The course is composed of six modules:

1. *Due Diligence* – understanding the process that impact investors use when evaluating early stage social ventures, building on the experience of traditional seed stage venture capitalists and angel investors.
2. *Applicant Presentations* – social ventures that have applied to the Tamer Social Venture Fund will make short presentations to the class, followed by meetings with their assigned due diligence student teams.
3. *Due Diligence: Emerging Markets* – identifying and managing the challenges faced by early stage investors in social ventures based in developing countries.
4. *Due Diligence: Nonprofits* – understanding how leading philanthropists evaluate nonprofit organizations for donations and other forms of funding.
5. *Measuring Impact* – evaluating the tools used by impact investors and philanthropists to measure their effectiveness.
6. *Valuations and Deal Structure* – understanding how investments in early stage social ventures are valued and optimally structured by impact investors.

**COURSE OBJECTIVES**

This course is designed for MBA students interested in impact investing, social entrepreneurship, or philanthropy. The objective of the course is for students to learn both the theory of investing in early stage social ventures and the practice of evaluating early stage social ventures through a due diligence process. This course is not designed for the evaluation of larger, established social enterprises.

Note that students may find that the social venture assigned to their team is difficult to communicate with, provides incomplete information, and/or appears unlikely to succeed. While these situations are not ideal, they represent the reality of investing in early stage social ventures and students should be prepared to manage these challenges, recognizing that they provide a valuable learning experience.

**REQUIRED COURSE MATERIAL**

Investing in Social Ventures utilizes the following cases, articles and background readings:

Session 1: Due Diligence

* How Venture Capitalists Evaluate Potential Venture Opportunities
* Best Practice Guidance for Angel Groups – Due Diligence
* Kheyti (India): Application to the Tamer Social Venture Fund

Session 2: Venture Presentations

* How Venture Capitalists Really Assess a Pitch

Session 3: Due Diligence: Emerging Markets

* Making Social Ventures Work
* Ziqitza Health Care Limited
* Investing in Financial Inclusion & the Bottom of the Pyramid

Session 4: Due Diligence: Non-Profits

* Highlights of IRS Form 990
* GiveWell: Real Change for Your Dollar

Session 5: Measuring Impact

* The Robin Hood Foundation
* B Lab and the Impact Assessment Evolution

Session 6: Valuations and Deal Structure

* Best Practice Guidelines for Angel Groups – Deal Structure and Negotiation
* Acumen Fund and Embrace: From the Leading Edge of Social Venture Investing

**REQUIRED PREREQUISITES AND CONNECTION TO THE CORE**

Note that students may not, in the same semester, register in this course and participate as a member of a social venture team applying for funding from the Tamer Social Venture Fund.

This course requires the standard prerequisites for elective finance courses:

Prerequisite(s): B6300 Corporate Finance

Corequisite(s): B8306 Capital Markets & Investments

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

|  |  |
| --- | --- |
| **Core Course** | **Connection with Core** |
| LEAD | * Negotiating effectively |
| Corporate Finance | * Discounted cash flow models * Risk and return * Valuation |
| Strategy Formulation | * Cost Leadership * Differentiation * Competitor analysis |
| Marketing | * Customer lifetime value * Segmentation and targeting * Distribution channels |

Students will be expected to have mastered these concepts and be able to apply them in the course.

**ASSIGNMENTS**

Students are placed in teams of three to four (students have the option of selecting their own team or being randomly assigned to a team). Each team is responsible for completing (i) a mid-course two-page plan on their due diligence process, (ii) a final due diligence report of five pages plus exhibits, and (iii) a two-page summary of the final due diligence report with constructive feedback and recommendations for their social venture.

**METHOD OF EVALUATION**

This course will utilize readings, cases and guest speakers. The guest speakers provide an opportunity for students to meet industry specialists. This course requires active class participation, and students’ grades are dependent on the quality of class discussion.

Grades are based on class participation, the mid-course due diligence process plan, the final due diligence report and the feedback report provided to the social ventures. The mid-course due diligence process plan is a two-page outline of your team’s proposed due diligence of the social venture you will be evaluating. The final due diligence report is a five-page report plus exhibits, evaluating the social venture as a candidate for funding from the Tamer Social Venture Fund. Each team is also required to provide their assigned social venture with a two-page summary of feedback and recommendations based upon their due diligence report.

Students’ grades in the course are based on the following metrics:

|  |  |
| --- | --- |
| Class participation  (Individual) | 40% |
| Due Diligence Process Plan  (Type A – group/group) | 10% |
| Final Due Diligence Report  (Type A – group/group) | 40% |
| Feedback and Recommendations to the Social Venture  (Type A – group/group) | 10% |

At the end of the course, each team member has the option of completing a confidential poll indicating the percentage that each member contributed to the due diligence process and the three written reports. Results of the poll can affect student grades in the course.

**CLASSROOM NORMS AND EXPECTATIONS**

Students are required to prepare for each class by reading and analyzing the assigned readings and cases. Students are expected to add thoughtful analysis to each class discussion. Several classes will include a guest speaker, and students are expected to engage guest speakers with questions and comments.

There is a “no devices” policy in this course. Please leave your phones and computers off. Violations of this policy will lead to deductions from a student’s class participation grade.

Students are requested to sit in the same seat for the duration of the course to enhance class discussion and facilitate grading of class participation. Please choose your seat in the first class.